

Message Text

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ACTION EUR-12

INFO OCT-01 IO-13 ISO-00 CIAE-00 DODE-00 PM-04 H-02 INR-07

L-03 NSAE-00 NSC-05 PA-01 PRS-01 SP-02 SS-15 USIA-06

AID-05 COME-00 EB-07 FRB-03 TRSE-00 XMB-02 OPIC-03

CIEP-01 LAB-04 SIL-01 OMB-01 /099 W

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R 081724Z OCT 76

FM AMEMBASSY BONN

TO SECSTATE WASHDC 2445

INFO AMEMBASSY BRUSSELS

AMEMBASSY COPENHAGEN

AMEMBASSY DUBLIN

AMEMBASSY LONDON

AMEMBASSY LUXEMBOURG

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E.O. 11652: NA

TAGS: EGEN, GW

SUBJ: SPD OFFICIAL OUTLINES MAIN ECONOMIC PROBLEMS
FOR THE NEW GOVERNMENT.

1. SUMMARY: DURING CONVERSATION JUST BEFORE THE
RECENT ELECTIONS, WE WERE STRUCK BY THE MODERATE
EXPECTATIONS ON ECONOMICS FOR ANY NEW GOVERNMENT
EXPRESSED BY ASSISTANT SECRETARY LAHNSTEIN IN THE
FINANCE MINISTRY, AN OFFICIAL WHO HAD EARLIER BEEN
NOTABLE AT LEAST FOR HIS INTELLECTUAL ADHERENCE TO
MORE REFORMIST POLICY INITIATIVES OF "ENLIGHTENED"
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SPD IDEOLOGISTS. END SUMMARY.

2. DURING CONVERSATION ON OTHER MATTERS BETWEEN ECON/COMM. MINISTER AND MANFRED LAHNSTEIN, ASSISTANT SECRETARY FOR FINANCIAL POLICY IN THE FINANCE MINISTRY, JUST BEFORE FRG ELECTIONS, LAHNSTEIN OUTLINED THE PROBLEMS OF ANY NEW GERMAN GOVERNMENT WHETHER IT BE THE EXISTING COALITION OR THE CDU/CSU OPPOSITION.

3. WE FOUND LAHNSTEIN'S EXPOSE ESPECIALLY INTERESTING, SINCE HE WAS FORMERLY SENIOR ECONOMIC ADVISER IN THE BRANDT CHANCELLERY, AND WE HAD USUALLY CONSIDERED HIM ONE OF THE MORE DOCTRINAIRE INTELLECTUAL SOCIAL DEMOCRATS IN A RESPONSIBLE SUB-MINISTERIAL GOVERNMENT POSITION. ON THIS OCCASION, HOWEVER, LAHNSTEIN VISIBLY WAS PULLING IN HIS LIBERAL HORNS AND ADOPTED VERY MODERATE POINTS OF VIEW.

4. LAHNSTEIN SAW THE TWO GREATEST ECONOMIC PROBLEMS FOR A NEW GOVERNMENT LYING IN THE UNEMPLOYMENT PROBLEM AND IN THE INTERNATIONAL SPHERE. AS FAR AS UNEMPLOYMENT WAS CONCERNED, HE DOUBTED THAT ACROSS-THE-BOARD MACROECONOMIC MEASURES WERE THE ANSWER TO REDUCING THE PRESENT LEVEL OF UNEMPLOYMENT IN THE FRG. HE THOUGHT RATHER THAT A STRUCTURAL APPROACH, INCLUDING PUBLIC INVESTMENT, WAS THE APPROACH WHICH A NEW GERMAN GOVERNMENT WOULD HAVE TO ADOPT.

5. ON THE INTERNATIONAL SCENE, HE SAW THE MOST IMMEDIATE PROBLEMS AS DEALING WITH THE SERIOUS PROBLEMS OF ITALY AND THE UK, WITH THE SPECTER OF THE FRENCH ECONOMY ALSO DEVELOPING PROBLEMS WHERE GERMAN SUPPORT WOULD BE NECESSARY. HE THOUGHT THAT THE GERMAN PUBLIC INCREASINGLY RECOGNIZED THE NEED FOR THE FRG TO MAKE A MATERIAL CONTRIBUTION TO THE ECONOMIC HEALTH OF ITS NEIGHBORS. HOWEVER, WHEN WE POINTED TO THE LONG-RANGE PROBLEM OF THE NORTH/SOUTH DIALOGUE, HE WAS LESS CONCERNED AND LESS REASSURING AS TO GERMAN PUBLIC SUPPORT. IN REFERRING TO THE NORTH/SOUTH DIALOGUE, LAHNSTEIN SAID THE ONLY INTEREST HE HAD WAS IN ENERGY, AND THAT THE REST OF THE DIALOGUE WAS OF LIMITED OFFICIAL USE

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LESSER IMPORTANCE TO THE FRG.

6. OF PARTICULAR INTEREST WAS HIS DENIAL THAT "VERMOEGENSBILDUNG" (WORKER ASSET FORMATION) WOULD BE AN ISSUE FOR A NEW GOVERNMENT. HE OPINED THAT THERE WAS VERY LITTLE OTHER THAN FLANKING MEASURES THAT THE GOVERNMENT COULD UNDERTAKE IN THIS AREA. WHEN WE REMINDED HIM OF HIS EARLIER ENTHUSIASM FOR A

CENTRAL FUND WORKER ASSET ARRANGEMENT, BASED ON GOVERNMENT LEGISLATION, HE BRUSHED THE MATTER ASIDE SAYING THAT ALTHOUGH HE PERSONALLY WOULD PREFER SUCH A SYSTEM, INSISTENCE THEREON WOULD ONLY DELAY ANYTHING BEING DONE AT ALL.

7. WE ALSO MENTIONED LAHNSTEIN'S EARLIER PREOCCUPATION WITH THE VARIOUS ACTIVITIES OF THE MULTINATIONALS, A MATTER WHICH HE ALSO BRUSHED ASIDE. HE SAID THAT BOTH THE FRG AND THE US HAD STUDIED THE MATTER CAREFULLY AND DISCOVERED THAT INVESTMENT ABROAD DID NOT REDUCE JOBS, ALTHOUGH IT WAS DIFFICULT TO SELL THIS

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POINT OF VIEW TO THE TRADE UNIONS. FURTHERMORE, HE SAID THE FRG WAS INCREASINGLY DEVELOPING ITS OWN MULTINATIONAL CORPORATIONS, AND WITH AN AGREEMENT ON THE OECD CODE, THERE WAS LESS AND LESS REASON TO USE THE MULTINATIONALS AS A WHIPPING BOY.

8. HE AGREED THAT FINANCIAL PROBLEMS OF THE HEALTH INSURANCE PROGRAM WERE SOMETHING THAT ANY FUTURE GOVERNMENT WOULD HAVE TO DEAL WITH. HE SAID THAT PEOPLE WERE AFTER ALL GETTING MORE AND BETTER MEDICAL
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CARE THAN EVER BEFORE, AND THAT THE MORE THEY WERE GETTING WAS OBVIOUSLY COSTING MORE. SINCE IT WAS COSTING MORE, THE ONLY SOLUTION HE THOUGHT WOULD BE HIGHER PAYMENTS BY THE BENEFICIARIES THEMSELVES. LAHNSTEIN THOUGHT THAT NO MATTER WHO TOOK OVER THE NEW GOVERNMENT, INCREASED CONTRIBUTIONS WOULD BE ESSENTIAL, ESPECIALLY SINCE THE GOVERNMENT DID NOT WISH TO FRITTER FUNDS AWAY ON HEALTH WHICH SHOULD BE AVAILABLE FOR PUBLIC INVESTMENT TO REDUCE UNEMPLOYMENT.

9. ON THE FINANCIAL PROBLEMS OF THE OLD AGE INSURANCE PROGRAM, LAHNSTEIN HAD NO SPECIFIC NOSTRUM TO OFFER. HE DID, HOWEVER, ATTEMPT TO EXPLAIN MATTERS AWAY BY SAYING THAT THE PROBLEMS OF THE OLD AGE PENSION SYSTEM HAD BEEN MAGNIFIED BY THE TIMING OF STEEP INCREASES IN THE PENSIONS, DEMOGRAPHY AND OTHER FACTORS. HE ALSO EMPHASIZED THAT THE CONTROVERSY ON BOTH THE SICKNESS AND OLD-AGE INSURANCE HAD BEEN EXAGGERATED BECAUSE OF THE POLITICAL CAMPAIGN.

10. COMMENT: OBVIOUSLY, FUTURE POLICY IN THE FRG WILL NOT NECESSARILY FOLLOW THE LINES SUGGESTED BY LAHNSTEIN. HOWEVER, HIS PULLING AWAY FROM EARLIER MORE REFORMIST POSITIONS (HE WAS A HOT DEFENDER OF PARITY CO-DETERMINATION) SUGGESTS THAT EVEN BEFORE THE ELECTION, MANY RESPONSIBLE SPD FOLLOWERS WERE RESIGNED TO NO NEW VENTURESOME ECONOMIC AND SOCIAL POLICIES IN THE IMMEDIATE FUTURE.
HILLENBRAND

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